# Half Year Results and Guidance Update

mnf group

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Find out where it all began…

https://mnfgroup.limited/about

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26th February 2019

MyNetFone · MNF Enterprise · symbio networks · tnzi · iBoss · pennytel · Conference Call International

# Key Results Summary

All ***organic*** Key Performance Indicators are performing well on PCP

**⬆ 25%**
Number portability

**⬆ 16%**
Wholesale customer growth

**⬆ 10%**
Virtual PBX customer growth

**⬆ 24%**
Enterprise & Government margin

NPAT for the half is down on PCP, the company is confident of achieving a full year NPAT of $11.0m to $12.0m

H1 results primarily impacted by one-off items:

- Decrease in previously stated Global Wholesale margins of $4m/annum due to contract unwinds
- TIAB acquisition costs of $800K, and associated opportunity costs due to transaction delays
- Increase in depreciation due to New Zealand and Singapore network assets coming on-line

# Financial Summary FY19 H1

| Reported Result | FY19 H1 | FY18 H1 | Δ |
|---|---|---|---|
| Revenue | $98.1m | $116.7m | -16% |
| Gross Margin | $35.8m | $34.1m | +5% |
| Gross Margin % | 36.5% | 29.2% | |
| EBITDA^ | $9.8m | $11.6m^ | -16% |
| NPAT | $3.1m | $6.1m | -49% |
| Earnings per share (cents) | 4.18 | 8.30 | -50% |
| Interim dividend per share - fully franked (cents) | 2.10 | 4.30 | -51% |

- ^EBITDA excludes net interest, non-cash option costs, tax, depreciation and amortisation. (FY18 H1 EBITDA restated to be consistent with this definition)





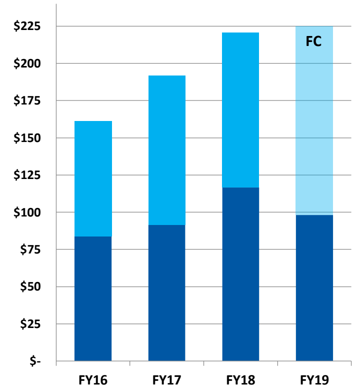
# Updated Guidance

| Forecast | MNF FY18 Actual | Original FY19 Guidance | Updated FY19 Guidance | Unchanged FY20 Forecast |
|---|---|---|---|---|
| Margin | $69.0m | $86.4m | $85.0m-$86.0m | $100.0m-$105.0m |
| EBITDA^ | $24.4m | $29.1m | $27.0m-$28.0m | $33.0m-$36.0m |
| NPAT | $11.9m | $12.8m | $11.0m-$12.0m | $15.0m-$16.5m |
| NPAT-A | $13.9m | $16.1m | $14.5m-$15.5m | $19.5m-$21.0m |
| Earnings Per Share (cents) | 16.3 | 17.5 | 15.0-16.4 | 20.4-22.4 |

- Guidance updated with new ranges for FY19 due to variables related integration costs around TIAB acquisition.
- Combined FY19 forecast includes 7 months contribution from TIAB and includes funding costs and estimated amortisation expense.
- ^EBITDA excludes net interest, acquisition costs and non-cash option costs.
- NPAT-A adds back all amortisation.

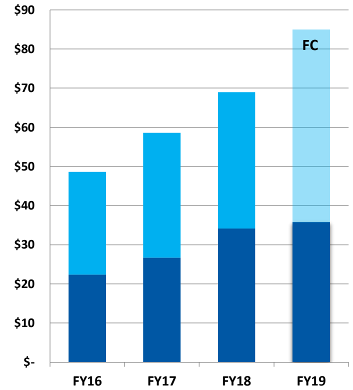
## REVENUE
## $98.1 million

Consolidated group Revenue declined 16% to $98.1m, with decline attributable to contract unwinds in usage based volumes in Global Wholesale as previously stated by the company.



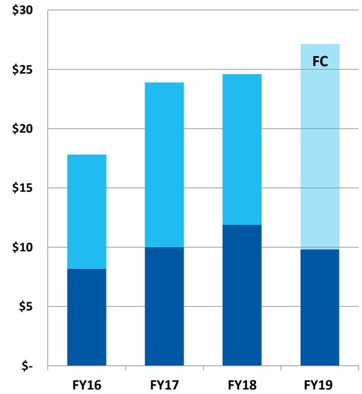

## MARGIN
## $35.8 million

Gross Margin increased by 5% to $35.8m overall, with underlying growth of 12% after Global Wholesale usage adjustment. All other segment margins are growing strongly. Forecast of $85m for full year.




## EBITDA
## $9.8 million

EBITDA declined 16% to $9.8m attributable to accelerated investment in product development, and impacts of TIAB acquisition delays in first half. Forecast of $27m to $28m for full year.

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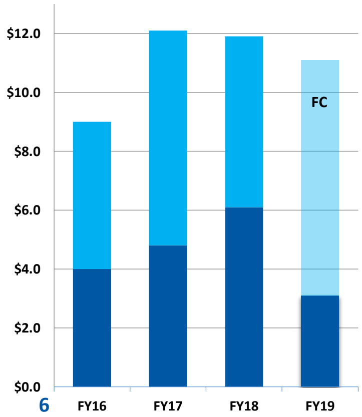
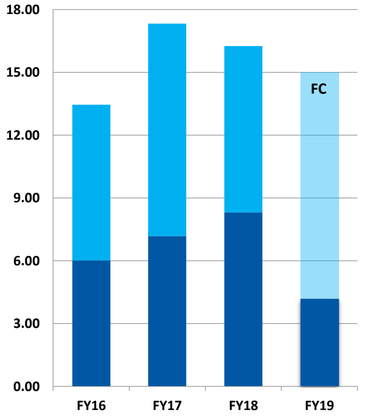
## NPAT
## $3.1 million

NPAT down due to one-off items – Acquisition cost, D&A increase due to new assets coming online, Staff cost increases due to acceleration of regional expansion. Full year forecast NPAT target at $11m to $12m, and FY20 target of $15m to $16.5m.



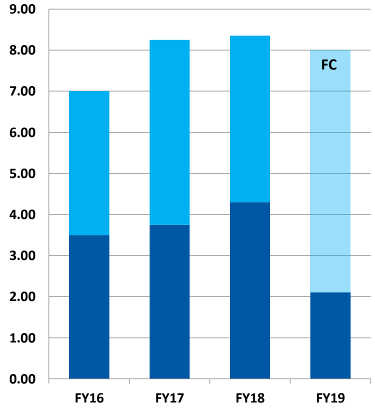

## EPS
## 4.18¢

EPS for H1 down inline with NPAT. Forecast for 15cpm to 16cps for full year, and FY20 target of 20cps to 24cps.




## DIVIDEND
## 2.10¢

Interim dividend of 2.10cps, with a forecast full year dividend of 8cps, fully franked; based on 50% of expected EPS for the full year.

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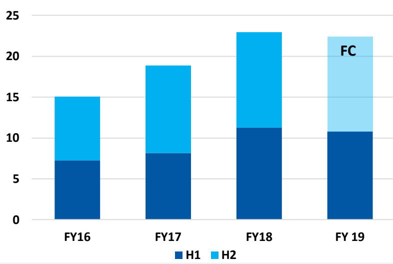
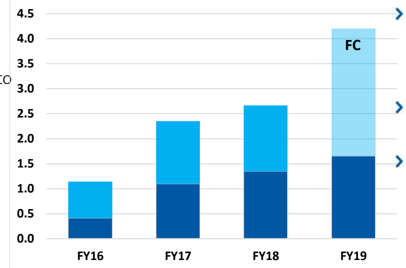
# Domestic Retail Overview

## Gross Margin Trend ($M)



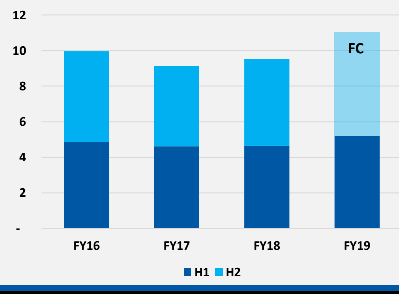

- Gross Margin 60% of Revenue (FY18 H1 64%)
- Domestic Retail margin declined 4% on PCP due to Consumer broadband
- The CCI business is performing well with margins steady pending new product launch
- PennyTel mobile grew 600% to 6,636 SIO and is approaching profitability.

## Enterprise & Government Gross Margin Trend ($M)



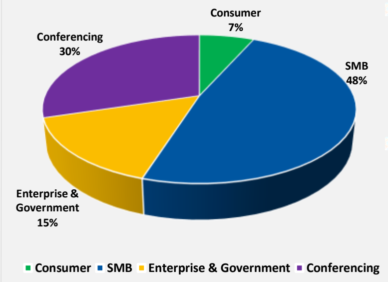

- E&G margin grew 22% YoY due to contribution from new Microsoft and Broadsoft product offerings
- Pipeline looking very strong and expecting a strong H2
- Additional Government wins expected to contribute to strong exit run rate into FY20

## Small Business Gross Margin Trend ($M)




- SMB margin grew 10% on PCP with Virtual PBX reaching 4,000 businesses.
- Two and Four line unlimited call bundles are proving the most popular.
- Good sales traction through channel partners.

## FY19 H1 Segment Gross Margin Split




- Segment margin indicates Consumer is no longer a material contributor. MNF looking at strategic options going forward for this sub-segment.
- All other sub-segments performing strongly and expected to continue providing growth well into the future.

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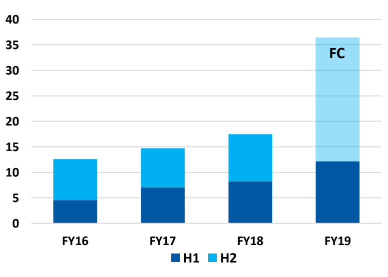
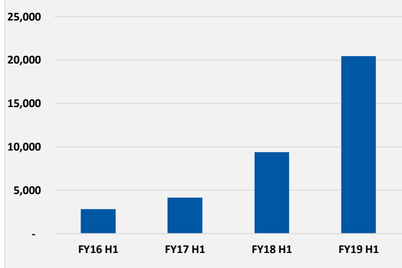
# Domestic Wholesale Overview

## Gross Margin Trend ($M)



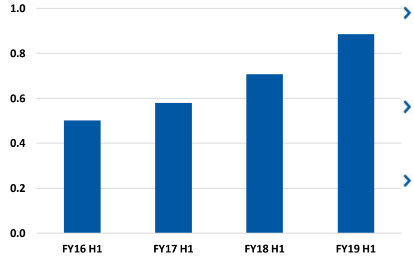

- Segment margin performed strongly with 41% growth on PCP including one month of TIAB.
- Segment margin up 24% on PCP organically
- Total number of unique wholesale customers organically grew 16% to 329 in the period

## iBoss Wholesale Services



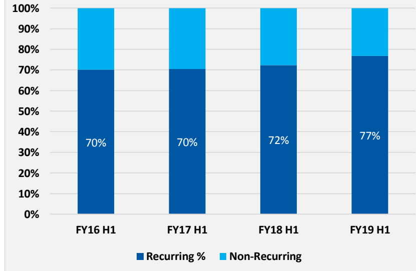

- iBoss aggregation services grew 35% in 6 months to over 20K SIO - this is across voice, data and mobile
- iBoss momentum is building thanks to triple play, especially with the mobile resale product

## DID's Ported In (M)




- Phone numbers ported into the Symbio Network increased by 25% during the year to 885K
- Total number of phone numbers hosted on the network grew to 3.5m
- Number porting is a key indicator of future margin growth

## Recurring Vs Non-Recurring Margin




- Wholesale recurring margins increased slightly as a proportion of overall margin
- Recurring services now contribute 77% of the margin mix for this segment, providing stability and continued growth potential

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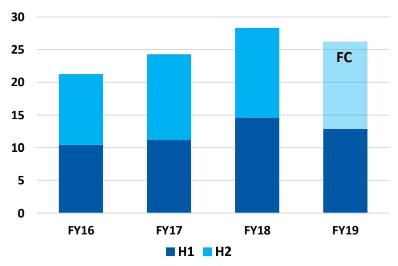
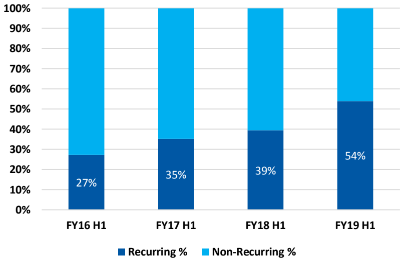
# Global Wholesale Overview

## Gross Margin Trend ($M)



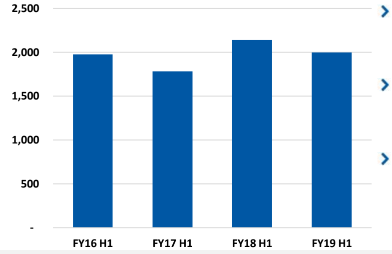

- Segment margin overall declined slightly due to predicted contract unwinds in usage revenue stream
- Recurring revenues up strongly with 21% growth on PCP
- The usage based revenue stream continues to provide some volatility due to global market changes

## Recurring Vs Non-Recurring Margin



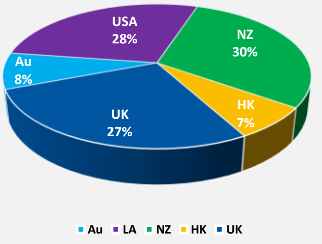

- Recurring margin proportion grew to 54% of overall segment margin
- Recurring margins grew 21% on PCP organically
- Significant tail winds exist due to global trends in the UCaaS and CPaaS markets

## Minutes Trend (M)




- Global traffic decreased slightly in the period as predicted to 2B minutes
- Long term trend is steady indicating overall increase in market share globally
- New traffic streams being investigated in North and South America and the Middle-East

## December Minutes by PoP






# Cash Flow

| **Free Cash Flow** | **FY18 H1 $M** | **FY19 H1 $M** |
|---|---|---|
| Tax paid | (3.1) | (4.3) |
| Settlement of financial assets/liabilities | (0.3) | - |
| Net Interest paid | 0.3 | (0.5) |
| Net receipt/payments (excluding working capital movements) | 9.6 | 7.5 |
| **Normalised operating cash flow** | **6.5** | **2.7** |
| Effect of working capital movements (excluding acquisitions) | (28.2) | (8.3) |
| **Statutory operating cash flow** | **(21.7)** | **(5.6)** |
| Expenditure on capital and intangible assets | (4.5) | (9.0) |
| **Free cash flow** | **(26.2)** | **(14.6)** |

| **Cash Utilisation** | **FY18 H1 $M** | **FY19 H1 $M** |
|---|---|---|
| **Free cash flow** | **(26.2)** | **(14.6)** |
| Dividend payments | (3.3) | (3.0) |
| Increase in equity | 0.6 | 0.8 |
| Acquisitions | - | (35.6) |
| Net debt movement | (1.3) | 43.7 |
| Other | (0.6) | 0.3 |
| **Net movement in cash** | **(30.8)** | **(8.4)** |
| **Opening cash balance** | **52.4** | **18.9** |
| **Closing cash balance** | **21.6** | **10.5** |

- Operating cash flow in FY19H1 is the last period that will be impacted by the unwind of the large supplier novation brought on in 2016. The final payment of c.$7.0m was made in July 2018. This payment makes up most of the H1 working capital movement.

- Other includes mostly impact of FX movements
- Looking forward, operating cash flows are expected to normalise with working capital movements stabilising after the complete unwind of the supplier novation.

# Investor Metrics

| Metric | Value |
|---|---|
| Number of Shares | 73.38m |
| Share Price | $4.38 |
| Market Capitalisation | $321m |
| FY19 H1 Interim Dividend (fully franked) | 2.10 cents |

- Share price is as at 25 February 2019
- A Dividend Reinvestment Plan (DRP) is in place for this dividend

**Dividend Timetable:**

| | |
|---|---|
| Record Date: | 7 March 2019 |
| Closing date for DRP election forms: | 8 March 2019 (5pm AEDT) |
| DRP Announcement: | 19 March 2019 |
| Interim Dividend Payment Date: | 4 April 2019 |





# TIAB Acquired Business Summary

Acquisition Recap:

- Acquisition completed 12 December 2018 for total consideration of $34.5m
- Includes Telco-In-A-Box, Neural, Symmetry and iVox brands
- Wholesale provides a wide range of voice, data and mobile aggregation services to over 500 service providers in Australia
- Enablement provides a full operational outsource eco-system for voice, data and mobile for several major brands in Australia
- Includes all staff, software and network assets required to run and expand the business
- Strong technical and customer synergies with MNF

Post-acquisition update:

- Business performed to expectation in Dec & Jan
- All key customers onboarded with MNF senior management
- Original earn-out conditions all met, validating MNF valuation
- Network and Staff integration planning well underway. Expect to see run-rate benefits by end of June 2019

# Business Overview

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We're redefining the communications experience through software led solutions…

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## UC and CPaaS are **disrupting** the global telecom market

- Existing telecom networks are **unable** to support UC and CPaaS vendors
- Software vendors are **unwilling** to build telecom infrastructure
- Software vendors **depend** on MNF to underpin their capabilities

*Vendors are shown for reference purposes only



# Key Market Drivers

- ISDN/PSTN Cease-sale in Australia, driving SMB/Enterprise to consider their communication requirements and to migrate into the cloud.
- NBN providing a generational migration opportunity.
- Huge global focus on UCaaS evolution and CPaaS revolution.
- Withdrawal of other industry participants from Voice & Wholesale segments.
- Strong reputation for MNF quality, product capability and agility.
- Global opportunity – not just Australia. Receiving strong interest from existing customers for NZ, Singapore and other APAC markets - urgently.

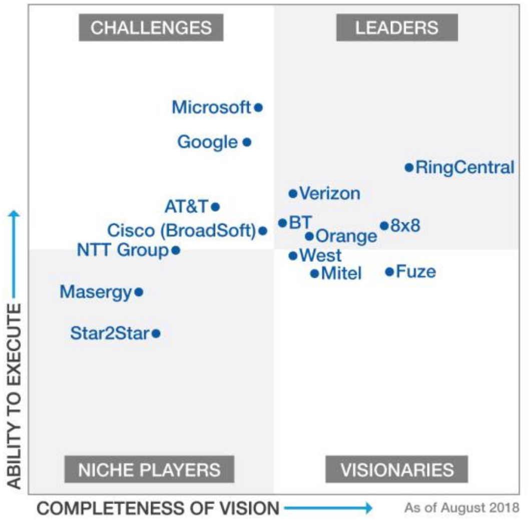
**The time is now to capitalise on a *"once-in-a-generation"* shift!**
**MNF is strongly placed – inaction is not an option.**

# The world is changing…

*"By 2021, 90% of IT leaders will not purchase new premises-based UC infrastructure — up from 50% today"*

— Gartner, 10 October 2018

- Most companies in the Gartner UCaaS Magic quadrant are MNF customers today, or are working with MNF to plan deployments in our region within the next 18 months.
- MNF is developing additional capabilities and capacity to match this once in a generation opportunity.
- The potential growth for MNF is only limited by the number of countries we can deploy in the next 5 years.

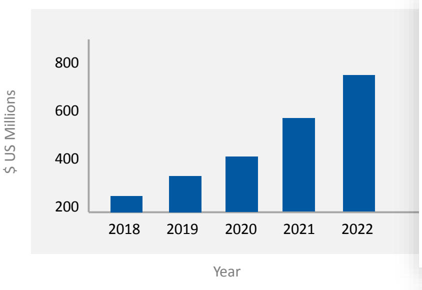




Sources:
Magic Quadrant for Unified Communications as a Service, Worldwide,
Magic Quadrant for Contact Center as a Service, North America
The State of the Unified Communications Market in 2018
Graph information source: Gartner, Inc



# How Big is the Market Opportunity?

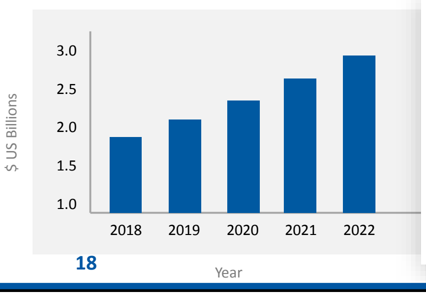



**40%** CAGR
Over the next 4 years

cPaaS

Revenue Asia Pacific excluding China & India

Source: Gartner, Inc




**12%** CAGR
Over the next 4 years

UCaaS

Revenue Asia Pacific excluding China & India

Source: Gartner, Inc

- UCaaS & CPaaS growth set to accelerate in the region due to increasing awareness and knowledge – structural tailwinds
- MNF is well placed in Australia and NZ to leverage this growth, and soon Singapore
- UCaaS & CPaaS is a key driver for our regional expansion strategy to cover more countries in APAC in coming years
- MNF estimates it can provide up to 30% of the value stack on CPaaS with Wholesale services
- MNF estimates it can provide up to 20% of the value stack on UCaaS with Wholesale services, and up to 80% with Retail services

MNF is investing capital and human resources in realising the opportunities presented by its customers and the market as a whole.

# 3 Key Trends – Underpinned by MNF

**CPaaS**
preferred over calls & sms

**20%**
All customer service interactions handled by AI (by 2022)

**UCaaS**
replacing on-premise PBX

**70%**
Customer interactions will involve chatbots (by 2022)

**AI**
may soon call & SMS more than humans

API API API

mnf group

Mobile MVNO
Virtual Numbers
SIP Trunks

SMS
Voice Termination
Analytics

Compliance
Billing
Service Delivery

Porting
E911
Geo-location



Sources: OVUM 2018, Eastern Management Group 2016, Roy Morgan 2016, ACMA 2017



In Asia-Pacific

## The future is being built on capabilities that **only MNF** can deliver

Lower cost

Flexible API

Reputation

Infrastructure

# Our *4-dimensional* growth strategy

### Geography
Expand infrastructure and presence throughout the Asia-Pacific region

### Software
Expand our communications platform with new capabilities and products

### Market share
Acquire new customers with targeted brands and tailored products

### Wholesale partnerships
Build long term customer relationships with steady margin growth

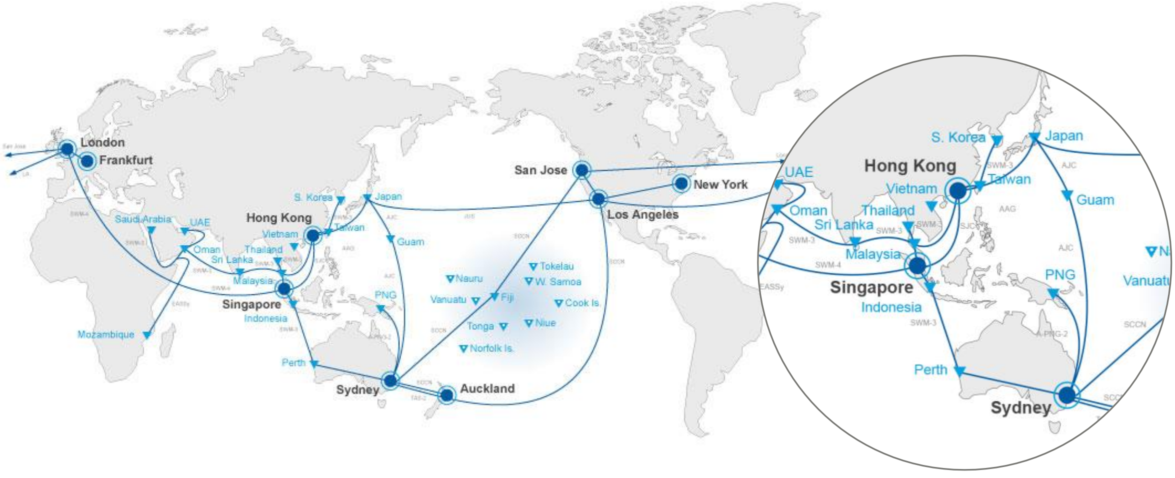
**+ 1**

### Acquisitions
Careful strategic addition of businesses that compliment or expand our capabilities





# Our global reach



# Australian Snapshot

Australia is MNF's home market where it is becoming a dominant player in the Wholesale Voice Telecommunications segment.

Population
**24.8M**

Telco operators
**5** Telstra, Optus, Vocus, TPG, Symbio (MNF)

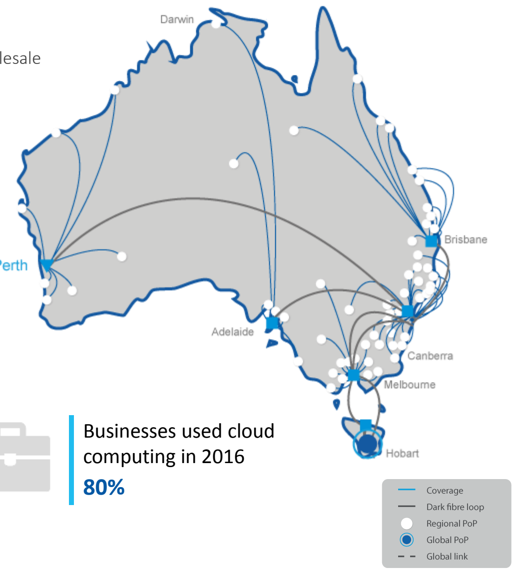
Increase in data allowance
**▲ 46%**

Mobile only users
**6.7M**

NBN activations
**56% in regional Australia**

NBN activations
**1.1M > 2.4M**

Businesses used cloud computing in 2016
**80%**

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Sources: accc.gov.au | accc.gov.au



# NZ Snapshot

Symbio NZ is disrupting the local market. Our first wholesale customers have been onboarded, traffic is flowing.

Population
**4.9M**

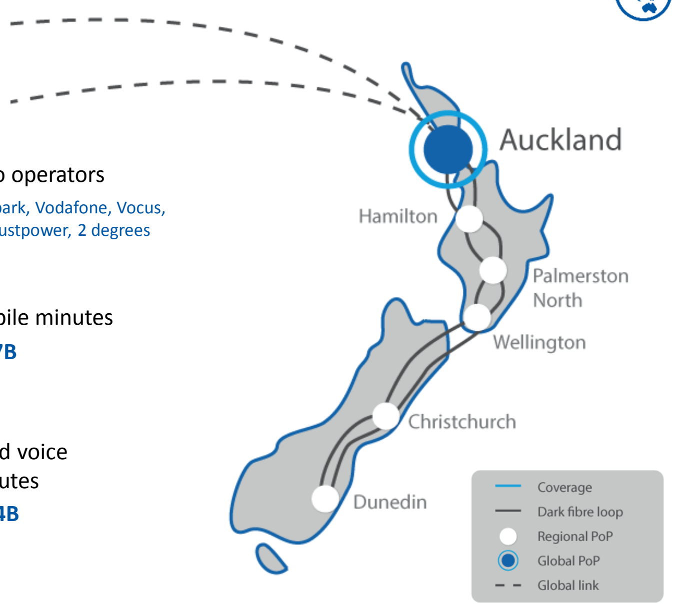
Telco operators
**5** Spark, Vodafone, Vocus, Trustpower, 2 degrees

Mobile connections
**6.4M**

Mobile minutes
**8.77B**

Fixed broadband
**1.58M**
*Fastest uptake of fibre broadband in the developed world*

Fixed voice minutes
**3.44B**

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Sources: stats.govt.nz | Annual Telecommunications Report 2017

# Singapore Snapshot

Acquisition on **Super Internet Access** provides a regional foundation for growth, plus technical expertise that expands our Enterprise & Government capabilities.

Population
**5.6M**

Telco operators
**4** Singtel, StarHub, M1, TPG, Telecom (starting mid 2018)
(MVNO penetration is growing rapidly, currently just 2 )

Business & Corporate line subscribers
**700,000**

Mobile subscriptions (2G+3G+4G)
**8,464,400**

Residential line subscribers
**1,300,100**

Outgoing retail international telephone call minutes
**351,563,900**

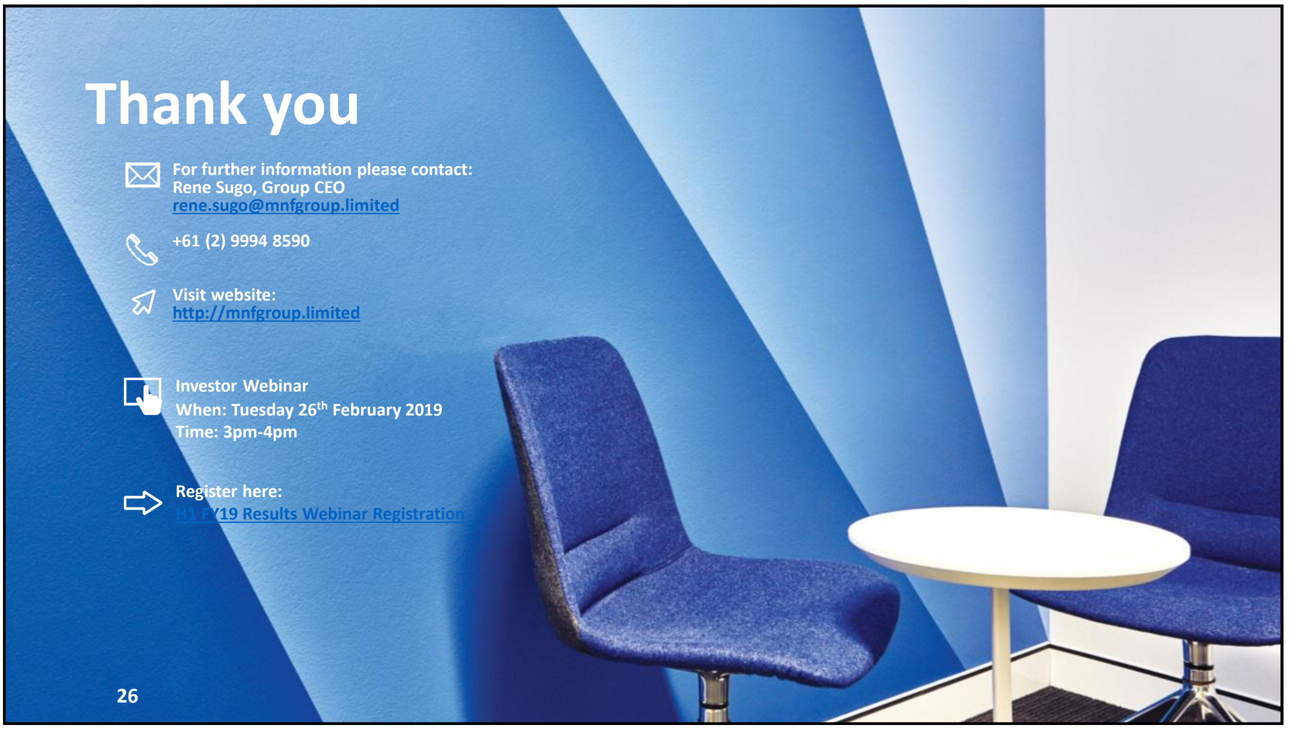

Dark fibre loops in CBD

FBO license

NetLinkNBN NBN coverage



Sources: imda.gov.sg | singstat.gov.sg 



# Thank you

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http://mnfgroup.limited

Investor Webinar
When: Tuesday 26th February 2019
Time: 3pm-4pm

Register here:
H1 FY19 Results Webinar Registration

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